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December 16, 1994

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Ex Parte

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

Re: LEC Price Cap Review, CC Docket No. 94-1

Dear Mr. Caton:

*In accordance with the Commission rules governing ex parte presentations, please be advised that yesterday, Stephen Melnikoff, Sallie Westbrook and the undersigned representing Southwestern Bell met with Karen Brinkmann, Special Assistant to Chairman Reed Hundt to discuss Southwestern Bell's position regarding the LEC price cap review. Attached are the handouts provided in the meeting.*

*Due to the fact that the meeting was held late in the day, this letter is being filed on the next business day. If you have any questions, please let me know.*

Sincerely,

Attachments

cc: Karen Brinkmann

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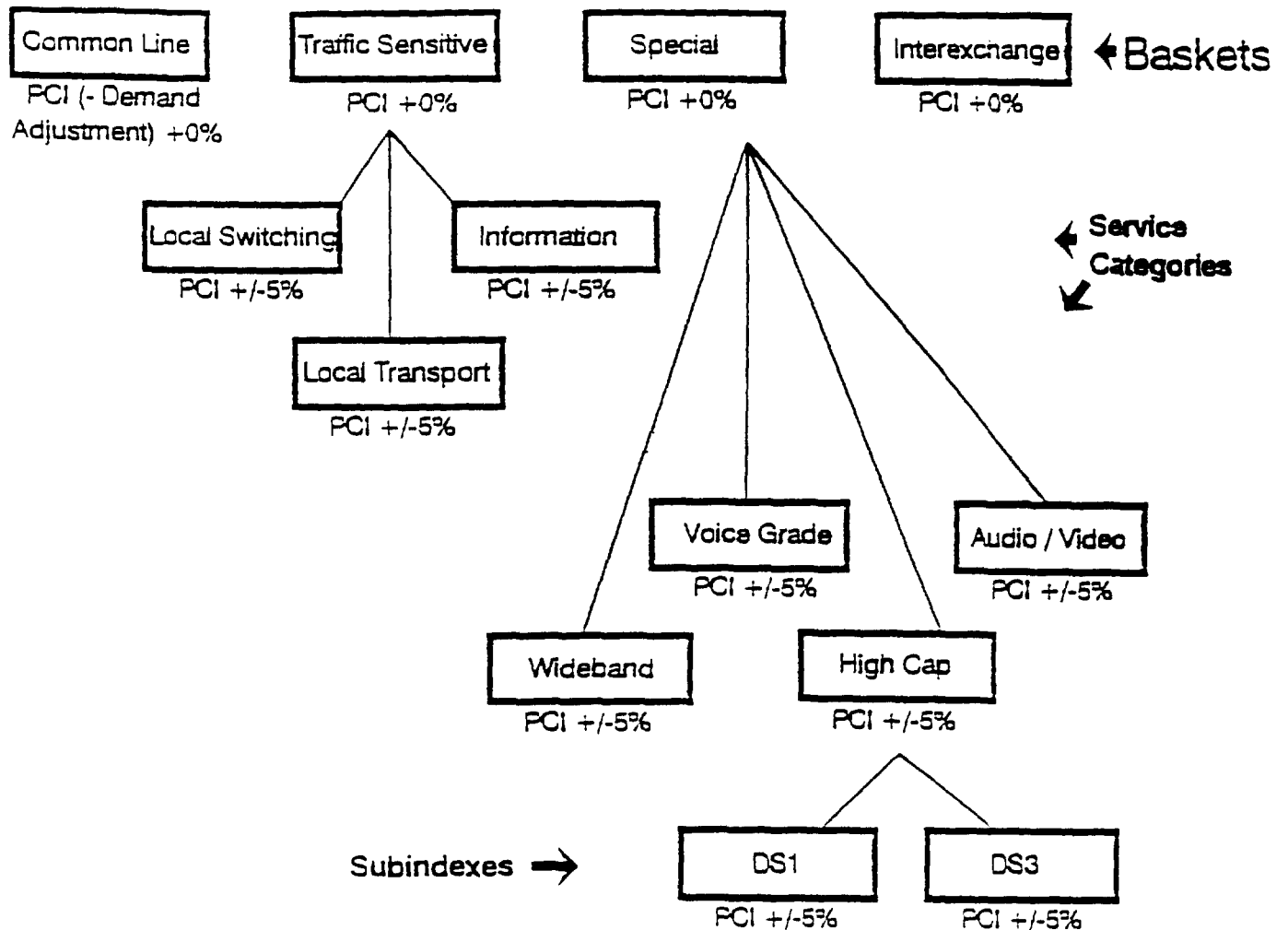
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## **Southwestern Bell Position LEC Price Cap Review**

- o Need a More Simple Plan**
- o Need the Right Plan**
  - o One that is Rational Based on Competitive Environment and Adaptive Where There is Less Competition**
    - Competition**
    - Customer Needs**
  - o One that Allows the Market to Create Incentives for Investment in Regulated Business**
    - Eliminate Sharing / Investment Follows Opportunity**
    - SWBT Is Not Disinvesting**
  - o One that Does Not Penalize LEC for Improved Productivity, Increased Demand, or Reasonable Earnings**

# LEC Price Cap Plan At Implementation (1-1-91)

Each Basket has its own Price Cap Index (PCI) = Inflation - Productivity Offset +/- Exogenous.

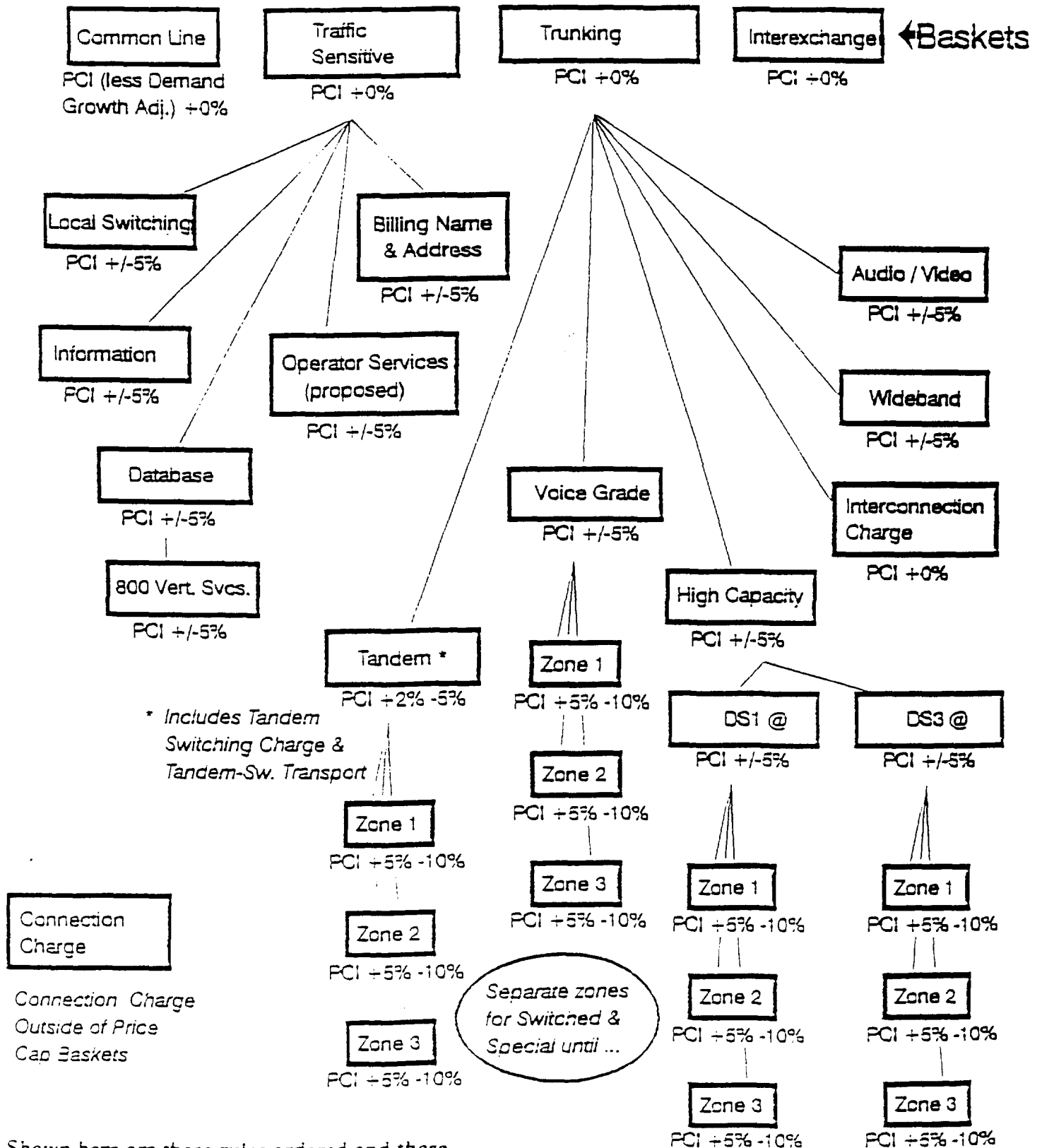


**Productivity Offset 3.3%, with 4.3% option.**  
**50/50 Sharing, with eventual 100% sharing.**

Excluded from price caps: special construction; packet switching; PIC change charges; air-ground service; contract offerings in combination with interexchange carriers for services to the Federal Government.

# LEC Price Cap Plan as of 2-1-94, with Proposed Changes

Each Basket has its own Price Cap Index (PCI) = Inflation - Productivity Offset +/- Exogenous.



Shown here are those rules ordered and those proposed by the FCC. The transport structure is that contained in CC Docket No. 91-213. Second Report and Order, released 1-31-94.

@ Includes Direct Trunked Transport and Entrance Facilities